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STATE FOR WHA/CEN ELIA TELLO AND WHA/EPSC LISA MARTILOTTA
COMMERCE FOR ITA DESK OFFICER MARK SIEGELMAN

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SUBJECT: MCC REQUIREMENTS KEY TO REDUCING BUSINESS OPENING TIME IN
CAFTA-DR COUNTRIES

REF: A: TEGUCIGALPA 1154

1.(U) Summary. While the key indicator of days to start a business has shown a dramatic improvement in CAFTA-DR countries, one of the untold stories is the influence of The Millennium Challenge Corporation (MCC). As demonstrated by Honduras and the Dominican Republic, MCC is acting as a strong motivator to improve key indicators both before and after the implementation of reforms to qualify for MCC contracts and entrance into CAFTA-DR. End Summary.

2.(U) During the negotiation and implementation process of CAFTA-DR, the time needed to register and open a business -- as based on the World Bank's Doing Business Index, one of the key indicators of competitiveness -- has been dramatically reduced in most of the treaty countries (ref A). During the same period, requirements for several of these countries to meet MCC standards proved to be a major motivating factor behind the improvements. Embassy Santo Domingo and Embassy Tegucigalpa have incorporated additional comments on the role of MCC in reducing the time it takes to register and open a business in CAFTA-DR countries. (Note: Costa Rica is not eligible for MCC funds due to its status as a middle-income country, and therefore was not involved in this cable.)

HONDURAS: BEST PERFORMANCE DURING MCC QUALIFICATION

13. (U) Honduras was the second country to qualify for MCC funds, formally implementing the pact in July 2005. This was quickly followed by the ratification of CAFTA-DR in April 2006. It was during this key period in 2005 that Honduras made the greatest progress of any Central American country in reducing the process time to open a business, from 62 to 44 days (29 percent). MCA-Honduras, the implementing agency for MCC, highlighted the continued reduction to just 9 days in their first quarter 2007 report as evidence that the GOH is maintaining good performance on the MCC selection criteria.

14. (U) Minister of the Presidency Yani Rosenthal highlighted the role of this indicator in MCC and CAFTA negotiations. In a July meeting on competitiveness hosted by Ambassador as follow-up to the Americas Competitiveness Forum in Atlanta, Rosenthal cited the Doing Business Index as the key metric for quality of business regulation. He indicated that even before signing the MCC pact, the GOH was aware that such a reduction was a selection criteria and has continued to focus on improving the measure. MCC is currently working with Honduras on reforming their Real Estate Law, which according to Virgilio Umanzor of the Presidential Competitiveness Commission will facilitate greater access to credit for (and perhaps a rise in the creation of) small and medium enterprises.

DOMINICAN REPUBLIC:
IMPROVEMENTS MAINLY DUE TO MCC PROCESS

5.(U) In the Dominican Republic, the steps towards improving the number of days to start a business have been directly linked to the Dominican government's efforts both to qualify for the MCC and to attract investment under CAFTA-DR. While the country still has a long way to go before it qualifies for MCC assistance, the CAFTA-DR treaty entered into force on March 1, 2007. Between 2006 and 2007, the Dominican Republic realized a nearly 74 percent decrease in days to start a business, dropping from 75 to just 20 days.

16. (U) In response to an MCC inquiry on Dominican efforts to qualify for its assistance, the Dominican State Secretariat for Economy, Planning, and Development released a report in July 2007 on its progress to date in reforming the business registration process. This report recapped the country's initiatives to qualify for MCC, specifically noting the concern created by the country's low ranking in the World Bank's Doing Business Index 2005 (114 out of 175 countries ranked). The Secretariat cited the Dominican Republic's strong "desire to participate and be chosen by the MCC" as the main impetus behind improving its standing.

17. (U) The lead agency responsible for implementing these reforms is the National Competitiveness Council (CNC), which was created "to continue the necessary reforms and push forward the formal institutional commitment towards reaching the [MCC] program goals." With financial support from the Inter-American Development Bank and USAID, the CNC has developed a one-stop-shop pilot window, has reduced the required steps to register a business from ten to seven, and says it has reduced the time to register a business from 75 to 20 days. The CNC is currently addressing other necessary reforms, including the modernization of the property registration process.

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18. (U) Comment. As with the CAFTA-DR treaty itself, MCC has helped to reduce business registration and opening times in Central American countries. MCC has proven a motivating factor when preceding reforms -- as in Honduras -- and when offered as a possible future carrot, as in the Dominican Republic. The versatility and monetary rewards in the Millennium contracts have helped to reinforce and complement the potential gains of CAFTA-DR, and should help promote similar successes in future MCC eligible countries. End comment.

19. (U) This cable was coordinated with Embassy Santo Domingo.

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